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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into the Review of the California High Cost Fund B Program.	Rulemaking 06-06-028 (Filed June 29, 2006)

REPLY COMMENTS OF VERIZON REGARDING PHASE II SCOPING AND SCHEDULING ISSUES

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Verizon respectfully submits this reply to the opening comments submitted in response to the Assigned Commissioner's Ruling Regarding the Scoping and Scheduling of Phase II Issues, dated October 5, 2007 (Ruling).

I.

INTRODUCTION

As noted separately below, many parties took this opportunity for comment as a license to recommend proposals rejected in Phase I of this proceeding, or to reargue issues decided there. Others offer proposals that contravene the Commission's related decision in the Uniform Regulatory Framework (URF) proceeding. Rather than respond to each of these proposals in detail, Verizon recommends that they be rejected as outside the scope of comment on the Ruling.

II.

COORDINATION OF REVERSE AUCTION AND COST PROXY MODEL UPDATING

Many parties suggested in opening comments[1] that a cost update need not be conducted before auctions are held. Instead, these parties recommend using some variant of the existing support level or the post-phase-down level resulting from the Phase I decision to set a reserve, and recommend postponing or eliminating the cost update altogether.[2]

The Commission should proceed with a streamlined cost update now, since it remains unclear whether, when, or in what areas reverse auctions will be viable in California. As several parties correctly observed, establishing reverse auctions for universal service funding is a daunting challenge. [3] No state has yet successfully implemented such auctions and, if California is to be first, it must resolve the many complex issues parties have identified in opening comments.

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[1] See, e.g., DRA, p. 4; TURN, pp. 3, 10; Time Warner, pp. 4-6, Sprint Nextel, p. 21, and CCTA, p. 2.

[2] DRA, p. 13; Sprint, p. 18, proposes that the existing support level be the upper limit on the auction reserve and that discounting the existing levels by 10 to 20 percent might be reasonable.

[3] For instance, TURN, p. 1 ("TURN would like to emphasize that the Commission is plowing new ground with regard to its proposal to auction carrier of last resort (COLR) rights.") and Sprint ("The Commission should not, in fact, underestimate the difficulty of the task ahead.")

Further comments and workshops have been recommended by many. Also, the Ruling suggested, and many parties endorsed, the idea of conducting auctions on a pilot basis, meaning that the existing system will continue to operate in other areas of the state for some time. In the meantime, the existing costs are obsolete, and some mechanism must be implemented to identify high cost areas for the B-fund to continue operating so as to target those high cost areas. As the Commission noted in the Phase I order, until cost proxies are revised it cannot discern whether cost-based basic service prices would remain affordable without the B-Fund.[4] Under these circumstances, the Commission should not abandon or delay its efforts to update costs.

Even acknowledging the flaws inherent in the HM model and the potential complexity of changing it, as the Commission and all parties have done,[5] an update to the cost model under the unique circumstances presented in California could be useful prior to conducting reverse auctions. As AT&T (p. 14) correctly points out, existing support should not be used in auctions because CBG boundaries have changed and the cost estimates are out of date. They correctly note that it is likely that a cost update will reveal new high cost areas and areas that can be excluded.

One option would be to complete both the auction process and the model update in parallel proceedings. Although an auction pilot can be conducted for limited areas using the reserve level determined using the existing cost results, a full-scale auction should begin after the final cost model is completed. In this way, the high cost areas, and the reserve levels, can be determined using the most current and accurate results available.

III.

REVERSE AUCTION DESIGN AND IMPLEMENTATION

A. Processes and Protocols (Question 2)

Several parties suggest different elements of auction design, each focusing on different specific concerns. TURN, for example, noting GTE's

[4] D.07-09-020, p. 34.
[5] See, e.g., Verizon Opening Comments at p. 18 (cost models inherently unreliable for determining absolute costs).

(Verizon's predecessor in California) support of this option in 1997, suggests that a single-round, sealed bid format might have some advantages.[6] Many changes in the market as well as auction design have taken place since then, and Verizon believes that a more modern approach offers greater advantages.

For example, a multiple-round auction (such as the clock-proxy format discussed by Verizon) generates information for the bidders as they observe the results in each round, whereas a single-round auction does not.[7] In addition, multiple rounds provide a systematic way for bidders to account for synergies among areas and express preferences for particular combinations of areas. This obviates the need for the Commission to try to assemble CBGs into likely areas for auction, as TURN suggests, since the Commission lacks sufficient information to do so.[8] Finally, recent advances in auction design have made it possible to conduct "combinatorial" auctions that are relatively simple, avoiding the complexity concerns raised by TURN,[9] the need for bidders to withdraw bids,[10] or the concerns that might give rise to a need for contingent bids.[11]

As indicated by the issues raised in comments, auction design is a complex area, and the Commission must rely on knowledgeable experts, and proceed with caution, in order to develop a workable auction mechanism in California. Potential bidders will be in a much better position and the auction much more successful, if all the variables are addressed and understood by all bidders.[12] Much further work is required once these comments are completed.

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[6] TURN at pp.19, 21-22.
[7] TURN suggests that this information would not be useful, because the bidders might employ different technologies. Here what is being auctioned is the COLR obligation, and it would be useful to each bidder to see how other qualified bidders value this obligation, regardless of what technology they use. What TURN refers to as the "common value" element of the auction would therefore be quite significant. The single-round format of the earlier GTE proposal was intended to address specific incentive concerns which are not raised by the proposal Verizon has made here, where a single COLR would be chosen in each auction.
[8] TURN at p. 32.
[9] TURN at pp. 27-28 (citing in part a 2000 article, which would not take into account these developments).
[10] Id.
[11] AT&T at pp. 11, 14. The ability to submit bids on "packages" of areas in Verizon's proposal addresses the concern raised by AT&T. Such a bid would be "contingent" in the sense that is could only be accepted in its entirety.
[12] A recent additional variable to any auction is the November 20, 2007 release of the Recommended Decision by the Federal-State Joint Board on Universal Service. Since bidders

B. Eligibility Criteria/Duration of COLR Status (Question 3)

Parties substantially agree that the Commission should include intermodal competitors in the universal service process.[13] Doing so would be competitively neutral and would increase the number of potential bidders in an auction. However, as Frontier points out,[14] wireless service is not identical to wireline service, and there may be various tradeoffs involved with a wireless COLR versus a wireline COLR. Should the Commission proceed, a number of issues must be resolved, including the definition of basic service. As discussed below and in opening comments, further comment should be solicited on this issue.

With respect to duration of COLR status, estimates ranged from 2 to 15 years,[15] with Verizon's recommendation of a 5-year term falling somewhat in the mid-range. Sprint's proposal of 2 years appears too short for business planning and investment purposes, while AT&T's recommendation of 10 to 15 years may be too long given the pace of technological and market change in the industry.

C. Threshold Standards (Question 4)

Bonding may be one of several tools the Commission could use to ensure good performance or fulfill a specific purpose. For example, a refundable deposit might be required for participation in the auction to ensure that bidders are serious. The Commission might also consider a bond for the winner in order to create incentives against poor or non-performance.

Verizon concurs with AT&T[16] that a bond may be required for a new carrier with no history, but should not be required for established carriers with strong and demonstrated financials. The Commission should also heed Sprint's

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would consider all variables in formulating a bid, the availability of additional federal support could be an important factor. For example, an intermodal provider such as a wireless carrier could seek some of the proposed federal mobility funding and thus seek a lesser amount of support from the CHCF-B auction. However, the Recommended Decision is only a proposal at this point and the FCC is likely to take comments before considering adopting any part of it.

[13] See, e.g., AT&T at pp. 1-2, DRA at p. 6, Sprint at pp. 8-9, Cox at pp. 1-2, Time Warner at pp. 8-9, CCTA at p. 4, T-Mobile at pp. 5-7.

[14] Frontier at p. 3.

[15] See AT&T at p. 7 (10-15 years); DRA at p. 12 (5-10 years); TURN at p. 24 (5 years or 10 years for new facilities COLR); Sprint at p. 13 (initially 2 years); and Cox at p. 5 (5 years but parties may be able to demonstrate a longer or shorter term may be more appropriate).

[16] AT&T at p. 7.

caution[17] that a bonding requirement might chill participation. A useful benchmark would be the Commission's long-standing requirement of $100,000 in unencumbered cash for new applications for Certificates of Public Convenience and Necessity (CPCNs) by Non-Dominant Interexchange Carriers (NDIECs) and Competitive Local Exchange Carriers (CLCs), which may be satisfied in a variety of ways.[18] These bonds are intended to insure adequate initial capitalization as a start-up business, with revenues covering current operating expenses as the business grows.[19] The Commission has also long recognized that a substantially higher initial requirement would be a barrier to entry and deter competition.[20]

D. Regulatory Obligations (Question 5)

There is general agreement among parties that service standards should be no more onerous than exist today because additional requirements could increase costs and discourage participation.[21] Verizon concurs with this position. Also, such obligations must be spelled out in detail in contract form before auctions are held.

E. Services Covered (Question 6)

As many parties agree, the definition of basic service must be modified to allow intermodal carrier participation in auctions, and should be determined with precision prior to any auction.[22] This should be a threshold issue for reverse auctions because, without the participation of intermodal carriers, auctions may not be viable. Addressing the definition of basic service in turn brings up issues of comparability of service and price plans among different types of carriers. For example, AT&T correctly points out that the lifeline requirement must be

[17] Sprint at p. 14.
[18] See, e.g., D.91-10-041 (adopting requirement for NDIECs), D. 93-05-010 (reducing required financial showing for NDIECs), and D.95-12-056 (adopting requirement for CLCs).
[19] D.93-05-010, 1993 Cal. PUC LEXIS 381, * 21-22 (financial requirements for switchless and facilities-based resellers intended to prevent undercapitalization of start-up business).
[20] Id. at *20 (minimum financial requirement is a regulatory entry barrier).
[21] See AT&T at p. 6 ("To the extent service quality and performance standards would prevent any particular technology from participating in the auction, the Commission should consider whether those standards are necessary to protect consumers."); DRA at p. 10 (suggesting that service quality standards should be discussed in workshops); TURN at p. 26 (reliability and service quality standards needed); Sprint at p. 12 (no new service quality or 911 service standards should be established through the auction process); Cox at p. 6 (same).
[22] TURN at p. 12.

addressed to include other technologies such as wireless and VoIP since it is a prerequisite for a provider of basic service.[23] Likewise, carriers providing bundles in high cost areas must understand exactly what qualifies as basic service for purposes of subsidy.[24] It should be possible to define the requirement in such a way that different bundles of service, provided using different technologies and priced in different ways, can meet the obligation. This will require further discussion through workshops or other forums.

A number of parties suggest, without adequate explanation, that carriers obtaining revenues from other services should be excluded from eligibility for subsidy, whether in general or on a per-line basis. Sprint, for example, asserts that carriers charging allegedly above-cost rates for access or other services should be excluded from auction participation altogether,[25] or for any line on which "other" services are available.[26] TURN also mentions the potential relevance of other service revenues.[27]

Sprint's claims about access revenues[28] are irrelevant and its approach nonsensical. The Commission has already rejected the position of some parties that other revenues should be considered in setting the benchmark and hence high cost support,[29] and those arguments cannot be resurrected here. Rather, in structuring auctions, the Commission must allow each bidder to consider all relevant factors, including all potential revenues from the services to be offered. Indeed, one of the advantages of the auction approach is that it will, for the first time, allow all such factors to be considered. There is no reason for the Commission to second-guess the market by imputing revenues from other services, nor does it have an adequate factual basis on which to do so.

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[23] AT&T at p. 2.
[24] Cox at p. 7.
[25] Sprint at pp. 13-14 and 21.
[26] Sprint at 21
[27] TURN at 9.
[28] Access charges for all carriers are also the subject of a separate Commission proceeding.
[29] D.07-09-020 at 44.

Finally, no party favored expanding the definition of basic service to include broadband. Verizon agrees with Sprint[30] and Cox[31] that the Commission should not subsidize the provision of broadband or advanced services.

F. Geographic Areas/Transition/Timing (Question 7)

In terms of transition, a number of parties recommended a transitional period generally consistent with Verizon's suggestion of one year. DRA also recommended a transition period of one year,[32] while TURN suggested a ramp-up of subsidies to a single non-ILEC COLR a pro-rata basis based on customer counts.[33] In any case, transitional issues will also require further detailed comment should the ILEC lose the auction. In particular, several parties suggested that a losing or non-bidding ILEC should be required to make its facilities available to the winning bidder.[34] As explained in the response to Question 9, below, the item being auctioned is the COLR obligation, not the facilities of any of the bidders. If an ILEC bids for an area and loses, the Commission should decide whether and how to reduce regulation of that carrier and what (if any) obligation to serve would be appropriate. A winning bidder might also choose to buy or lease some facilities from an existing carrier, in which case a commercial agreement would be appropriate. On the other hand, the FCC could decide to remove obligations that the losing ILEC bidder may have to provide unbundled elements or resale. Because such obligations arise from federal law, however, this Commission is not free to impose new or different obligations.[35] In order to provide certainty and enable each bidder to bid on the basis of what it would cost that bidder to fulfill the obligation, the Commission should clarify these rules in advance of any auctions.

[30] Sprint at p. 15.
[31] Cox at p. 7.
[32] DRA at p. 12.
[33] TURN at pp. 36-38.
[34] Sprint at p. 22; TURN at pp. 4-6.
[35] TURN references circumstances in Hawaii, where the Hawaii PUC's designated COLR, TelHawaii, failed to obtain access the GTE's assets in the remote Ka'u area. TURN at pp. 5-6. TURN fails to mention, however, that the Hawaii PUC's order allowing TelHawaii to exercise eminent domain over GTE's assets in Ka'u was ultimately invalidated as violating both Hawaii law and the Telecommunications Act of 1996. See Judgment on Appeal, GTE Hawaiian Tel. Co. v. Public Utilities Commission and TelHawaii, Inc., Civ. No. 97-4372-10 (First Cir. Ct. Hawaii)(Apr. 16, 1999).

With regard to auction timing, carriers' decisions to become qualified, and the Commission's process for qualifying bidders, are likely to occur over time. Verizon's proposed nomination process allows the timing of the auctions to adapt to this. By holding a "bidding cycle" at regular intervals, perhaps twice a year, the Commission would allow areas to come to auction when bidders are prepared to nominate them.

G. Pilot Auction (Question 8)

It may be useful, as the Ruling and some parties have suggested, to hold auctions initially in a limited number of areas as a "pilot." However, such a pilot should not be held in just one or two CBGs, as DRA proposed,[36] as that would in all likelihood be too limited an area. Rather, a more useful pilot auction should include enough areas to attract the interest of a number of bidders, and flexible enough to permit them to assemble packages that meet their business needs. The chief criterion should be the availability of a sufficient number of bidders. Once bidders have been qualified, the pilot auction could be structured to include those areas where more than one such bidder is qualified.

H. Single Designated COLR (Question 9)

Several parties agree that only a single COLR should be designated,[37] and Verizon concurs. Allowing other carriers to receive the same per-unit subsidy as the winning bidder, as some suggest,[38] is not advisable. Doing so will undermine bidders' incentive to bid aggressively, since the "winner" will not get anything others will not have.

What is being auctioned is an *obligation*, not an exclusive right to serve an area. Many areas in California already receive service from multiple providers – an ILEC, a cable company, and one or more wireless providers – and nothing about the auction process creates a barrier to entry or compels any existing carrier to exit that area. Any carrier can offer service; only one would have an obligation to serve all customers, and to meet the other requirements specified in the auction proposal and contract.

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[36] DRA at p. 11
[37] AT&T at p. 13; TURN at p. 40; DRA at p. 12.
[38] Cox at p. 5; Sprint at p. 11.

This makes economic and competitive sense, since a properly conducted auction determines the amount of support that would be just sufficient to compensate a provider for the additional costs incurred to satisfy the requirements. Left to the marketplace, each provider would do only what made sense economically. In some markets, these voluntary outcomes would also satisfy the Commission's universal service goals, and there no subsidies are needed. But in some high cost areas, market forces alone may not satisfy the Commission's policy goals. In those areas, the fact that one carrier is chosen as the COLR does not exclude others from providing service. Assuming that the auction compensation is properly determined, it would not provide the COLR with excess funds beyond those needed to fulfill its obligation. Thus, subsidizing a single COLR should not interfere with competition in any area that would otherwise sustain competition. Of course, if the area has such high costs that no provider would operate without subsidy, then an unsubsidized entrant could probably not compete with a subsidized COLR. But that would be a reflection of the high cost market in that area, not a distortion of the market outcome.

IV.

COST PROXY MODEL UPDATE IMPLEMENTATION

A. Comments Rehashing Issues Decided in Phase I Should Be Rejected

In the Phase 1 Order, the Commission decided to update the cost proxy utilizing HM 5.3,[39] determine costs for a traditional wireline network architecture,[40] and use a limited updating process to "avoid relitigation over previously adopted methodology or sources."[41] Consistent with these findings and conclusions, the Ruling asked for preliminary comment on implementation on the HM 5.3 model update. Rather than provide comments on the limited inputs to be modified, and a procedural approach to completing the update, several parties took this opportunity to reargue the Phase I decision with

[39] D-07-09-020, Conclusion of Law 15; Ordering Paragraph 13 (the second phase shall "implement updated cost proxies utilizing the HM5.3 Model for qualifying High-Cost Census Block Groups for each of the COLRs.").
[40] D-07-09-020, p 108-109
[41] D-07-09-020, p.111

proposals that in some cases were explicitly rejected.[42] For example, TURN suggested that "(i)f the Commission believes that it must update costs, the most extensive revision in costs should focus on using the HM 5.3 to scale existing CPM results." This proposal is the same as its proposal in Phase I,[43] and D.07-09-020 rejected the scaling approach.[44]

B. Recommendations to Arbitrarily Cap Costs Should Be Rejected

As the Commission noted in the Phase I order, until the cost proxies are revised, the Commission cannot discern whether basic service would remain affordable without the B-fund.[45] Some parties recommended adjustments to the cost proxies,[46] but these proposals were either rejected in Phase I o r lack any principled foundation for adoption, and should be rejected. [47] By seeking to adjust costs to avoid "excessive subsidies" or "anomalous results" in advance and across the board, these recommendations ignore the fact that the Commission has already decided to use the admittedly flawed HM, with limited input changes, to calculate proxy costs. Instead of considering arbitrary wholesale changes to this approach in a vacuum, Verizon recommends that, to the extent the model produces exceedingly high results in particular CBGs, those results can be reviewed. If after review CBG results are determined to be anomalous, they can be adjusted using some form of cap. But those instances should be adjusted individually, after the staff has distributed the HM5.3 run that will be used as a basis for support and parties have had the opportunity to analyze the model.

C. Procedural Issues

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[42] Sprint at 21; T-Mobile at 9; Time Warner at 6 (the mere fact that there may be areas where a reverse auction is not feasible does not mean that it would be appropriate or useful to "update" HM5.3); Cox at 2; and CCTA at 2-3.

[43] D.07-09-020 at 107-108.

[44] D.07-09-020 at 111.

[45] D.07-09-020 at 34.

[46] DRA at 18-22; Sprint at 24-25; Time Warner at 6-8.

[47] DRA's conclusion at 17 that COLRs would receive windfall payments from anomalously high results in some areas is solely based on a cursory comparison of total support from DRA's estimate of HM5.3 results with current funding. No CBG-specific analysis was discussed. Thus, DRA conclusions amount to nothing more than speculation

DRA suggested without any explanation or supporting rationale that AT&T and Verizon should arrange for independent HM5.3 developers to work directly with Commission staff.[48] HM5.3, as adopted in the UNE proceedings, was modified by the Commission, and only the Commission staff has a model with all the requisite modifications to generate the adopted UNE prices.[49] Therefore, DRA's proposal is unworkable. Staff should distribute the version of the model it developed to produce the adopted UNE rates and parties can modify that model accordingly.

Verizon in opening comments provided an estimate of sixteen weeks over which the updates should occur. Based on the limited suggested modifications to HM5.3, this timeframe remains viable.

D. Response To CALTEL Motion

Although Verizon did not object to CALTEL's motion to intervene in this proceeding, Verizon as well as other parties reserved their right to address the issues raised in that motion, as CALTEL acknowledges.[50] CALTEL has been permitted to intervene, and is now free to comment on any changes proposed to the cost proxy update at issue in this proceeding. Accordingly, CALTEL should not be permitted to tie the outcome of this case in any way to the unrelated UNE case referenced repeatedly in its motion. In particular, CALTEL cannot be allowed to delay any cost proxy updates conducted here so as to advance a ruling on its pending price cap proposal for future UNE rate changes in the other UNE proceeding. Similarly, neither the ALJ in this case nor the Commission should bar any party from future advocacy in another proceeding based on steps that may, or may not, be taken in this proceeding. CALTEL is free to participate in any cost update process conducted here, and should do so.

V.
OTHER PHASE II ISSUES

[48] DRA at 23.
[49] In April 27, 2007 Comments, AT&T stated "AT&T California began with the HM 5.3 model approved in D.04-09-063. Because the model was run and adjusted by the Commission, AT&T California does not have the exact model (with inputs) that was used to generate UNE prices." (at 32)
[50] CALTEL at p. 2, note 2.

A. Transitional Rate Cap

TURN and DRA erroneously and nonsensically interpret a single sentence in the URF decision to imply an explicit and permanent cap on basic rates.[51] Whatever the Commission intended by this particular sentence, it cannot be interpreted in a manner that conflicts with the numerous explicit findings and conclusions in URF, and elsewhere, that the price cap on basic residential service for all URF carriers would be eliminated January 1, 2009.[52] Moreover, this alleged cap is utterly illogical and inconsistent with the subsequent Phase I Order's determination that ILEC basic rate increases would be "phased in. . . as necessary for a <u>transition to full pricing flexibility</u> to avoid sudden large increases in basic service rates."[53] Were DRA and TURN's interpretation correct, SureWest's rates would remain capped, which is obviously not the case. Instead, the URF language relied on by TURN and DRA addresses the trend in actual prices, and the Commission's intention to monitor this trend and ensure that prices remain affordable. Their contrary interpretation is simply wrong.

Against this illogical backdrop, DRA and TURN offer little in the way of proposals. DRA recommends capping all major carrier basic rates at SureWest's existing rate, an unreasonable proposal that plainly contravenes URF. DRA does so despite its utter speculation that this rate (set by the Commission at a just and reasonable level) may have already reduced penetration rates[54] and harmed universal service goals in its territory. Thus, under DRA's proposal, Verizon's and Frontier's rates are allowed to increase only slightly, and SureWest's not at all.[55] TURN admits its distaste for any rate increase at all.[56]

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[51] DRA at p. 24, note 35, citing D.06-08-030 at pp. 156-157 ("The SureWest rate was set as an implicit cap in the URF Phase I decision."); TURN at p. 46 (same).
[52] See, e.g., D.06-08-030, Finding of Fact 71, Conclusion of Law 29, Ordering Paragraph 3.
[53] D.07-09-020, Ordering Paragraph 7, as corrected in D.07-11-039 (emphasis added).
[54] DRA discuses the impact that allegedly high basic rates have had, or might have in the future, on the Commission's 95% target penetration rate. DRA at pp 26-27. Yet DRA fails to explain how a drop in penetration rates can be attributed to basic rate increases where access lines have been dropping steadily (3-5% annually for several years on a national basis) and almost 13% of American homes were "wireless only" last year. D.07-09-020 at 62. Indeed, given figures such as this, DRA's reliance on penetration rate as a measure of affordability is invalid.
[55] DRA at p. 29.
[56] TURN at p. 48.

Both parties cite the need for an investigation into affordability, yet ignore the various sources of data cited in the Phase I decision supporting the selection of $36 as a benchmark mechanism designed to preserve affordable rates.[57] DRA in particular urges that caps should not be developed until after extensive investigation on a “geographically and demographically disaggregated” basis into penetration rates and customer perception of “affordable” rates (by income group), as well as reaction to future phased-in rate increases.[58] But this level of microscopic examination has never been employed to set price caps in California, and is certainly not needed to determine what is affordable today. Verizon analyzed the affordability data cited in the Phase I decision in its Reply Comments on the Proposed Decision of Commissioner Chong Adopting Reforms to the CHCF-B Mechanism, filed August 28, 2007, to demonstrate the reasonableness of the $36 benchmark figure, and incorporates those comments here.[59]

Moreover, DRA in particular ignores the constraining effect that wireless prices and other competitive options have, and will continue to have, on the rates charged by wireline carriers, as the services are highly cross-elastic. While Sprint’s analysis of the constraining power of the competitive market has considerable merit, their conclusions from this data, that all price caps should be immediately lifted,[60] was rejected by the Commission in Phase I over several parties’ objection, including Verizon’s.[61] Unlike DRA, however, the Phase I order correctly recognized that the voice market is competitive and, after a transition period, prices should be based on competitive market forces.[62]

And finally, the Commission must bear in mind that carriers exercising pricing flexibility during the transition period will continually be evaluating the

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[57] See D.07-0-020 at 42-49.
[58] DRA at p. 27.
[59] Reply Comments of Verizon Regarding Proposed Decision of Commissioner Chong Adopting Reforms to the CHCF-B Mechanism, August 28, 2007, at 6-8 and notes 24-30 (discussing data showing $36 to be a stable and conservative level of amounts actually spent by the average consumer on telecommunications services.) See also Response of Verizon to Application of the Utility Reform Network for Rehearing of D.07-09-020, filed October 24, 2007.
[60] Sprint at 26-27
[61] D.07-09-020 at 99
[62] D.07-09-020 at 99

growing impact of market forces on their own pricing decisions. If prices in high cost areas rise, more competitors are likely to enter the market to place additional constraints on any one carriers' ability to increase prices too much. As the Commission noted in the URF decision, "allowing geographically unfettered pricing for telecommunications services not supported by CHCF-B may *improve* market competition and the supply of telecommunications services in rural areas."[63] These market trends will work in conjunction with the transition mechanism adopted by the Commission to further ensure reasonable and affordable rates.

In short, DRA's excessive focus on analyzing affordability is unnecessary. Verizon urges the Commission to adopt the simple and straightforward three-year transition proposal set forth in Verizon's opening comments.[64] That proposal balances reasonable basic rate increases over a relatively short time frame, consistent with the Commission's stated goal of implementing a phased transition to full pricing flexibility consistent with URF.

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[63] D.06-08-030 at 121(emphasis in original) (noting that the Commission's geographic averaging requirement may promote use of high-cost services when an efficient market might promote lower-cost alternative technologies).

[64] Verizon Opening Comments at pp. 22-24 and Attachment A.

VI.
CONCLUSION

The issues presented in the Ruling are complex and have engendered a broad range of responses. Many require considerable and precise detail in order to yield results. Verizon looks forward to submitting further detail on the proposals as may be or solicited in workshops or additional rounds of comments.

November 28, 2007

Respectfully submitted,

/s/

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CERTIFICATE OF SERVICE

I hereby certify that: I am over the age of eighteen years and not a party to the within entitled action; my business address is 112 Lakeview Canyon Road, CA501LB, Thousand Oaks, California 91362; I have this day served a copy of the foregoing, **REPLY COMMENTS OF VERIZON REGARDING PHASE II SCOPING AND SCHEDULING ISSUES** by electronic mail to those who have provided an e-mail address and by U.S. Mail to those who have not, on the service list.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 28TH day of November, 2007 at Thousand Oaks, California.

_/s/_

Jacque Lopez

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